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ABSTRACT

This report examines three performance-based funding (PBF) plans: (1) merit pay for teachers and/or administrators; (2) career ladders; and (3) formula-driven incentive payments to schools. The report contends that present-day problems in public schools result largely from the organizational structure of the educational enterprise. Being based on an industrial model, public education is made outmoded by shifts and trends in both the national and world economies. PBF alone is not the "answer." Rather, it is a reform borrowed from market-sensitive systems that in some cases may be effective in meeting selectively targeted goals. PBF's single greatest weakness is that the incentives to improve student performance it seeks to introduce are aimed directly at teachers and administrators, and only indirectly at students. (Author/JD)

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PERFORMANCE-BASED FUNDING IN PUBLIC SCHOOLS

by

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ABSTRACT

This brief examines three performance-based funding (PFB) plans: (1) merit pay for teachers and/or administrators, (2) career ladders, and (3) formula-driven incentive payments to schools. The authors find present-day problems in public schools result largely from the organizational structure of the educational enterprise. Being based on an industrial model, public education is made outmoded by shifts and trends in both the national and world economies.

PBF alone is not the "answer," Foster and Marquart contend. Rather, it is a reform borrowed from market-sensitive systems that in some cases may be effective in meeting selectively targeted goals. PBF's single greatest weakness is that the incentives to improve student performance it seeks to introduce are aimed directly at teachers and administrators, and only indirectly at students.

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PERFORMANCE-BASED FUNDING IN PUBLIC SCHOOLS

By Charles A. Foster and Deanna J. Marquart

INTRODUCTION

Performance-based funding (PBF) refers to any public school financing mechanism that rewards high performance at a higher level than it rewards low or mediocre performance. Financial rewards can be offered as performance incentives to teachers, administrators, or even to entire schools, depending on variations in objectives, available resources, and lawmakers' perceptions of whether one element in education is more responsive to incentives than any other.

Performance-based funding can divert new or existing resources to effective teachers, administrators, and schools, regardless of community wealth in any given district. The point of PBF is to allocate resources wherever they will have the greatest impact. By so doing, performance-based funding would restructure relationships in public education, creating a situation in which success and effectiveness in promoting student achievement are rewarded, acknowledged, and imitated.

To support performance-based funding is to agree that "low-performing students" are not the problem in today's schools. Every study of a successful, effective teacher or school includes several examples of students who had been failing in one situation but, upon participating in the successful, effective situation, achieved an appropriate level of academic progress. The problem in public education today is that we have a sluggish school system — a bureaucracy that systematically prevents teachers and adminis-trators from drawing upon their own wisdom and experience to create schools in which students are challenged to strive for excellence.

Schools are organized to meet the demands of an industrial society. In terms of organizational structure, they resemble manu-

facturing plants. In contrast, professional organizations — say, law firms or medical groups, for example — are structured to enhance professional practice; the role of administrators in such organizations is to carry out the professionals' policy and operations decisions.

A significant weakness of the existing model for schools' organizational structure is that industry and manufacturing are no longer a source of stability for America, nor is it clear what will emerge to stabilize America's place in the world economy or social and political order. What is clear is that an inflexible, out-dated educational system, organizationally resembling an assembly line, is becoming an intolerable burden.

At a minimum, schools must be adaptive organizations. They must be able to transform themselves from within, whenever needed, in order to prevent the repetition of failure. They must have the incentive and capacity to seek more effective, more individualized ways of providing instructional services and act quickly to improve their performance by using the better teaching methods they themselves have identified. Schools must understand that the mission of educating new generations of Americans can be prestigious and rewarding only to the extent they succeed in serving students — and that service to students consists of challenging them to master the basic skills and instilling in them a lifelong love of learning.

Performance-based funding alone is not "the answer" for how to restructure public education. It has been a promising reform in certain situations, as examples described in this brief will show. Its greatest weakness, perhaps, is its exclusive emphasis on teachers, administrators, and schools -- not students. PBF is concerned with giving teachers, administrators, and schools an incentive to improve instruction on the assumption that "motivated" educators will automatically inspire students to work harder and love learning more.

Performance-based funding is a simple concept that originates in markets — in short, within any category of work, a higher level of competence is worth more than a lower level of competence. In a traditional marketplace, this determination is made through the choices made by purchasers of a given product or service. In education, however, the "users" of schools — students and their families — are neither empowered nor authorized to choose which school or teacher they most prefer and trust (unless, of course, they can afford

to pay tuition to attend private schools). As a result, the accuracy of performance-based funding mechanisms in rewarding the genuinely effective efforts is dependent on artificial judgments of performance, somewhat arbitrary standards, or aggregated student scores on standardized tests.

It remains to be seen whether performance-based funding can stand alone. It may well be that this particular structural reform can be optimized only in conjunction with the simultaneous implementation of "family choice" reforms such as open enrollment, vouchers, or tax credits. In that scenario, we would have an opportunity to see whether the selections of effective teachers, administrators, and schools by the system itself in its exercise of evaluation would in fact coincide with the selections made by free agents in their exercise of choice.

PRIVATE SECTOR AS SOURCE: TWO PAY INCENTIVE STORIES

Lincoln Electric Company. One example of a company that has successfully implemented merit pay for all its managers and employees is the Lincoln Electric Company — the world's largest manufacturer of arc welding equipment for more than 30 years. All employees' earnings and promotions are awarded in direct proportion to the contributions they make as individuals to the company's success. The commitment creates an "internal climate" in the company that fosters and supports individual advancement through competition.

Yearly bonuses at Lincoln are based on cost reduction ideas and on individual productivity. These same standards apply to all employees, from the newest apprentice to the top manager. Many of Lincoln's managers began their careers on the shop floor and have assimilated the company's commitment to excellence in every aspect of the operation. Employees accept personal responsibility for their work habits and products — so Lincoln contends — when there is a direct and observable relationship between their productivity, their company's success in the marketplace, and, in turn, their own prosperity.

The practices of Lincoln Electric Company are most applicable to improving public schools' "internal climate." The purpose of

offering differential incentives is to stimulate competition for forms of recognition and levels of remuneration that are commensurate with achievements the school system seeks to promote.

It is important to re-state that merit pay for principals and teachers is offered in an education marketplace that is incapable of leading the industry's "customers" to the successful programs and competent instructors. Until parents are allowed to choose schools and teachers for their children, the transfer of incentive plans from private industry into public schools cannot necessarily be expected to have the desired results.

Bethlehem Steel. In 1902, Bethlehem Steel instituted the first performance bonus plan for its managers. By the late 1920's, nearly two-thirds of all manufacturing companies had such plans, and Alfred Sloan, head of General Motors, attributed his company's phenomenal success to the practice of offering pay incentives to management.

But in 1978, a study of managers who were benefitting from incentive plans concluded that executives' incentive bonuses have no discernible impact on their level of performance. When the researchers matched executive officers' salaries with their companies' performances, they found absolutely no relationship (either positive or negative) between stockholder return, for example, and executive pay.

Some economists and businesspeople have indicated they believe that slow productivity growth in the United States and the lower quality of some of our manufactured products (when compared to foreign imports) are possibly connected to the perverse incentives confronting some American managers to be preoccupied with short-term results and quantitative measurements of performance, rather than committed to the types of investments and innovations necessary to increase the nation's capacity to generate wealth.

Just as there is reason to be only cautiously optimistic that pay incentives for teachers and administrators which are modeled on private sector plans will indeed improve school performance, it would be wise not to dismiss merit pay and other PBF mechanisms out-of-hand simply on the basis of American business managers' preoccupations with short-term returns. What we know about existing personnel policies in school systems is that it does not now make a difference in the way one is regarded or paid whether a teacher or administrator performs well or badly. Given the necessity to

improve school performance, introducing competitive incentives seems reasonable, even if uncertain to succeed.

OBJECTIVES AND OPTIONS

The chart below both summarizes the arguments presented up to this point and introduces the remaining sections of specific performance-based funding models.

IF THE OBJECTIVE IS TO:	THEN, THE BEST OPTION(S) IS/ARE:
1. Reward outstanding performance and effectiveness in classroom teaching	1. Merit Pay and Career Ladders for Teachers
2. Reward improved school administration	2. Merit Pay and Career Ladders for Administrators
3. Reward improved student performance on standardized tests	3. Statewide Formula for Incentive Payments to Schools

What this very simple matrix is intended to show is that, *by its nature*, performance-based funding is responsive to specified objectives. Although this brief examines only merit pay, career ladders, and formula-based incentive payments to schools, the variations in PBF models are limited only by lack of imagination. PBF requires schools to be accountable to policy makers and community inter-

ests by defining what is important, setting standards, assigning responsibilities for achieving goals, and rewarding success in meeting the defined standards and goals. Clearly, this set of variables contains the potential for a wide variety of performance-based funding policies and program designs.

The following pages describe proposals and programs that are in various stages of acceptance and implementation. To avoid misrepresenting these ideas as set in concrete, we have resorted to using certian rather awkward phrasing — such as "would have been" or "was to be" — for which we apologize.

INCENTIVES FOR TEACHERS

MERIT PAY. Merit pay refers to a number of different schemes for paying more money to teachers who are doing a better job than their colleagues. This incentive is offered to spur individual effort and competition on the assumption that rewards for better public school teaching will motivate teachers to improve their own individual performance.

The Houston Plan. In 1979, the Houston Independent School District instituted the "Second Mile Plan," providing financial incentives for teachers to achieve a variety of objectives. The plan was developed to improve scores on student achievement tests, reduce teacher absenteeism, stabilize teacher turnover in "difficult" schools, relieve critical teacher shortages in certain subject areas, and promote professional growth for teachers. Obviously, not every one of these objectives is related to "merit," but incentives clearly could be utilized in achieving them.

To be eligible for participation in the pay plan, a teacher must be properly certified, have an acceptable evaluation from the principal, and be absent from school only five days or fewer per year. Awards range from $300 to $3,500; nearly two-thirds of the district's teachers receive some award.

Shortages of qualified teachers in specified subject areas in fact have decreased — from 251 in 1979 to 21 in 1982. Teacher absenteeism has declined. Staff openings in "difficult" schools are negligible, and teacher turnover throughout the system has been drastically reduced. Average achievement levels are improving.

The one feature of the plan that remains highly controversial is

the incentive for improving students' achievement test scores. Critics argue that the use of scores as a measure of teacher performance causes teachers to "teach to the test" rather than to encourage students to acquire substantive knowledge and learning skills.

The San Marino Plan. The schools in San Marino, California recently discontinued their 25-year-old merit pay program. Under this incentive plan, the school board determined the amount of money to be allocated for up to 30 percent of the district's teachers. Awards ranged from $200 to $2,000 annually. Principals decided who would receive pay incentives based on their evaluation of teachers. The evaluation agenda consisted of at least three classroom observations as well as a review of each teacher's instructional skills, professional relationships, classroom responsibilities, parent and community relationships, and personal factors. Evaluations were confidential.

In 1979, a teacher protested his merit pay rejection, stating he had not been evaluated. The next year, he was turned down for merit pay for failing one of the 101 evaluation criteria. A three-year investigation revealed that the teacher's predicament was not uncommon. There simply was no way to appeal the subjective judgment of the principal and no reliable objective standards existed by which to judge teacher weaknesses and strengths.

The Round Valley Plan. In Mendocino County, California, the Round Valley School District developed a weighted point system to determine teacher performance rewards. The district awards four out of a possible ten "merit points" for involvement in projects or activities that, on their own initiative, individual teachers themselves create and carry out alone. A merit evaluation committee — consisting of local school board members, school administrators, and other teachers — meets with individual teachers to discuss their projects for the year. Projects might include improving reading and math achievement test scores, teaching library research skills, sponsoring a student literary magazine, or teaching additional elective courses.

To avoid the negative effects of teacher competition, the plan awards 2.5 of the possible 10 merit points for teacher cooperation in group efforts. Ideas such as developing a consistent school disciplinary policy, creating a schoolwide writing program, and organizing extracurricular activities have won merit points in this category. Teachers earn the remaining 3.5 points on the basis of the principal's evaluation. The monetary awards in this plan are substantial: those who earn the full 10 points receive a bonus of $2,800, which equals

roughly 15 to 20 percent of their total salaries.

The Round Valley experiment is popular with teachers, principals, and the school board. Because the merit evaluation committee is involved in the development of teacher-initiated projects through the negotiation of project objectives and appropriate evaluation methods, the chances of completing a successful project are high. This makes it easier for large numbers of teachers to earn merit points, increase their pay, and feel proud of their achievements.

Because the principal's power in making evaluations is shared with other observers, the merit review is not arbitrary or based on the subjective judgment of one individual. Principals like the plan, *because* their evaluations are not the sole determinant of the teachers' financial fates. Removing this burden allows principals to be more discriminating in their judgments of teacher performance and responsible to their personal views of the school's needs.

The applicability of the Round Valley plan to other districts probably is limited to small school systems. The Round Valley School District has an enrollment of 450 students and employs only 27 teachers. A school board charged with evaluating hundreds or thousands of teachers would find it impossible to maintain the same degree of involvement as in the Round Valley model.

Furthermore, if a significant number of teachers — to say nothing of *all* teachers — receive high ratings, the costs for a large school district would quickly overtake the resources available to fund the incentive plan. These problems do not make the concept of the Round Valley plan useless; they merely suggest that merit pay schemes may more often enjoy success in relatively small, congenial school districts where there is strong, dynamic school board and community leadership, and where base salaries are adequate and bonuses are substantial and widely distributed.

CAREER LADDERS. Several states are implementing merit pay plans in the form of career ladders: as teachers move up each step of a ladder that defines increasing responsibility and measures of merit, their pay automatically increases accordingly. Programs from state to state vary only in the names given to each career stage and the dollar amounts attached to each; the concepts and basic procedures remain nearly identical.

The Tennessee Plan. The original Tennessee Master Teacher proposal outlined four 5-year stages in a teacher's career: Apprentice, Professional, Senior, and Master. An Apprentice teacher would have to become a Professional teacher within five years or leave

teaching. Professional, Senior, and Master teachers would renew their existing licenses or move up to a higher step within five years. Failure to meet this requirement would result in certification at the next lower step.

Apprentice and Professional teachers would have been paid on Tennessee's existing salary schedule, while Senior and Master teachers were to earn 30 and 60 percent more, respectively, than Professional teachers. When a teacher attained Master Status, new responsibilities — such as curriculum development, training, and teacher evaluation — would be added to the teacher's workload.

The evaluation of Tennessee teachers seeking higher certification or renewal of their licenses was to be a state function rather than a local one. The State Board of Education would have based its decision to approve licenses on the recommendation of the Master Teacher Certification Commission, consisting of Master teachers, other educators, and laypersons. Their review would focus primarily on classroom observations by peers (drawn from outside the teacher's district) and measures of student performance. This procedure would eliminate political battles in local schools, as well as local biases that might interfere with an objective review of teacher performance

The Master Teacher system holds out the hope that evaluations can be reliable as a standard for judging teacher weaknesses and strengths. If the different career stages truly reflect a certain set of skills and abilities and Master teachers were to be extensively involved in teacher training, it is likely that a common language would develop for describing and analyzing both teacher performance and the learning environment.

ISSUES. Two issues in the discussion of merit pay plans and their variations remain unresolved: the validity of test scores as a performance criterion and the potential for fairness in teacher evaluations.

Test Scores. What is excellence and how can we recognize it? Excellence in learning implies the acquisition of higher order intellectual skills: the ability to analyze, infer, solve problems, and create original solutions. Does the use of test scores accurately measure progress toward the goal of achieving excellence?

Standardized multiple-choice achievement tests do not measure powers of creative analysis. Recognizing the correct answer from a list of alternatives is not the same as possessing the critical faculties needed for problem solving. The material tested represents only a

small sample of what students are taught. Despite all these caveats, test scores are increasingly being used to make judgments regarding the educability of individual students, to rate teachers on their instructional performance and basic competence as the basis for merit pay, to design curriculum, and to manage schools.

Tests are not worthless as a source of information. But used as a management device, tests create incentives that skew the educational process. If test scores become as paramount in the evaluation of teachers as they are already in the educational life of students, they could become the totality of what is taught and learned.

One legislator in California has suggested that the state's standardized tests could be made more appropriate to educational goals by including an assessment of performance in logical analysis, drawing of reasonable inferences, and communication of ideas. This is surely a step in the right direction, but the jury is still out on whether such tests can even be devised.

Evaluations. Can evaluations ever be "fair?"

*The San Marino, California merit pay plan was discontinued because of the school's inability to conduct a fair evaluation.

*The Round Valley plan fared better, due to the use of less subjective evaluations of teachers by principals and the participation of additional evaluators with diverse perspectives.

*The Houston Second Mile Plan used much more objective criteria in evaluation reviews. There is nothing subjective in the awarding of incentive pay for reduced absenteeism, for example, or teaching in an area with a critical shortage of qualified instructors.

*Tennessee's Master Teacher program was to draw its evaluators from outside the district of the teacher under review, so there would be little chance that local political issues would interfere with the evaluation.

The incentive plans we have discussed clearly have accommodated the perception that fair evaluations are essential to workable performance-based funding schemes. As we have also seen, however, once a charge of unfairness has been substantiated, any attempt to award merit pay must adapt immediately to new standards of fairness or risk losing its legitimacy. If, on the other hand, performance-based funding could be *combined* with family choice mechanisms, the users of schools could provide at least an additional source of teacher evaluations through their selections of schools and teachers.

INCENTIVES FOR ADMINISTRATORS

MERIT PAY. In 1978, an Education Research Service survey of all U.S. school systems with an enrollment of at least 300 students found that more than 15 percent of those schools have a merit pay system to reward the performance of administrators. Another seven percent were considering a merit pay scheme.

The studied incentive plans varied widely. Some plans were based totally or partially on merit, some computed increases with set dollar or percentage amounts, some used management-by-objective performance measures, some established salary ranges for individual position categories or instituted complex point systems and weighted scales.

Of the schools surveyed, only four percent had discontinued their merit pay plans. In those situations, administrative and personnel problems accounted for roughly 80 percent of failed plans; collective bargaining issues and school budgetary problems were the cause for discontinuing the remaining 20 percent.

To be successful in motivating improved administrative performance, incentive plans should include:

(1) significant dollar amounts for bonuses;
(2) clearly defined levels of responsibility and objectives to be attained;
(3) strong, open communication between the administrator and the school board; and
(4) an annual review that includes the flexibility to make negative adjustments.

Even when incentive plans for teachers are implemented along with a plan for principals, the discrepancies between administrator and teacher salaries and bonuses often engender teacher resentment. Thus, one of the anomalies of incentive plans for administrators is that the incentives work in part to draw the most talented and ambitious individuals in the teaching profession out of the classroom and into school administration.

MASTER PRINCIPAL — THE TENNESSEE PLAN FOR CAREER LADDERS FOR ADMINISTRATORS. As part of Tennessee's comprehensive Better Schools Program, Governor Lamar Alexander included in his original proposal a career and pay incentive system for principals and other school administrators. Those who want to become principals would have been required to complete a one-year internship with a Master Principal. Once this

step had been completed, prospective principals would follow a career ladder that included certification as a Provisional Principal for three years, Senior Principal for five years, and Master Principal for another five years. Failure to obtain a license as a Senior Principal would have resulted in the loss of the position, while failure to renew a license at the Senior or Master level would have led to a five-year certification at the next lower step, rather than loss of the position.

Incentives Structure. Compensation would take two forms for principals who move up the career ladder. First, salaries would be increased. Interns would earn the same pay as Apprentice teachers; Provisional principals would earn 40 percent more than Professional teachers; Senior principals, 60 percent more than Professional teachers; and Master principals, 80 percent more than Professional teachers.

The second form of compensation would be in the form of specialized training. Tennessee would establish an in-service Principals Academy, run by university education experts, members of relevant professional associations, and outstanding school practitioners. The training would focus on instructional leadership and school effectiveness by offering seminars on organization analysis and remedies, advocacy techniques for successful introduction of curriculum changes, and methods for supervising and evaluating teachers.

Evaluation Procedures. Evaluation would be conducted over the term of each certification level by principals and Master teachers from other schools, along with high-level education administrators with regional and statewide authority. Criteria for evaluations would be based on direct observation of the principals in the course of performing their duties, interviews with the principals, and a review of the school's record of accomplishments and problems. This record would include student achievement test scores, school awards received, and parent/staff/community participation in accomplishing school goals. In the "problems" category, the record would include teacher and student absenteeism rates, staff turnover, and the incidence of disruption of school life.

CAVEATS. What expectations should be placed on a principal's performance? Ideally, a principal is prepared to:

(1) recruit, retain, and motivate a good faculty;

(2) develop and implement an effective curriculum;

(3) instill a sense of purpose, mission, and standards in both teachers and students;
(4) create the proper atmosphere for learning; and
(5) communicate educational ideals and enthusiasm to teachers, students, parents, and the community.

It is difficult to say whether incentive plans for principals can actually have these desired effects. Does merit pay result in enhancing only principals' administrative skills and resources, or might it also lead to their heightened expertise as educators?

The evidence from both public and private sectors is ambiguous. On the one hand, a trend in favor of establishing incentive plans for school administrators is observable. But, on the other hand, less than 25 percent of all school systems with enrollments of 500 students or more currently do have or plan to have such incentives. Furthermore, some school districts have decided to discontinue merit pay for administrators, due to a wide range of dissatisfactions.

In business, available evidence suggests that merit pay is more effective if offered not just to management, but to all employees throughout the entire organization. Even then, it is not clear that bonuses are an unmixed blessing; they may encourage managers (or school administrators?) to pursue short-term gains at the expense of greater benefits over the longer term.

Tennessee's Master Principal program is more promising than merit pay alone, as it attempts to capture the potential for *both* short-term gains — through the merit pay and career ladder elements of the program — *and* the longer-term benefits — through advanced training for principals. The "principals academy" concept could be instrumental in keeping school administrators up-to-date on advances in educational practice, while at the same time improving their school management capabilities.

Encouraging educational *leadership* should be the primary objective of incentive plans for school administrators. Being a skillful building manager is not enough to assure that a school will evolve into an adaptive organization, ready and able to change in order to meet the changing educational needs of American children.

INCENTIVES FOR SCHOOLS

Incentive plans for schools assume that the group approach to

improving performance — by down-playing competition among individuals — promotes team cooperation and communication among teachers and principals and thus promotes achievement of a common goal.

The Dallas Plan. One model for providing merit pay for schools was developed recently by university researchers in Dallas. The plan would alter the formula for allocating state aid to schools. Rather than predicate state funding entirely on a school's average daily attendance (ADA), this plan would distribute 80 percent of education dollars on the basis of ADA and 20 percent for improvements in students' achievement test scores.

The state's education agency would prepare computerized predictions of student scores for each school, normalizing the school predictions by statistically adjusting for various population characteristics of the student body and the surrounding community. Awards would be made to any school whose student body as a whole exceeded the state's predictions. No penalties would be assessed against a school's funding base for the student body's failure to improve.

The Tennessee Plan. Tennessee is currently experimenting with another plan, known as the School Improvement Incentive Plan (SIIP). The SIIP proposes to distribute money to schools for maintaining a high level of, or improving achievement in, basic skills. Each school received $500 from the state in 1983-84 to plan for the first year's operation of the program. In 1984-85, one-half of the participating schools will be eligible for incentive funds, while the remaining schools will serve as a control group.

Achievement will be measured by performance on criterion-referenced tests based on state learning objectives and norm-referenced tests comparing a given school's students to a national sample. Incentive funds will be awarded to schools showing student improvement on either test. Once funds are awarded, the school's professional staff will determine the allocation of money within the school.

The California Plan. Legislation proposed in California in 1983 would have provided incentives for schools to improve on their own past performances. (The legislation, as originally proposed, has been included in this brief as Appendix A.) As in other school incentive plans, in the California plan, schools would determine both the methods used to achieve higher scores and the distribution of new money within the school.

Performance in the California plan would be measured by student scores on the California Assessment Program standardized tests. The tests would be expanded to include critical thinking skills — performing logical analyses, drawing reasonable inferences and communicating ideas. School improvements would be computed by multiplying the average change in test scores by the number of students taking the test. This product would represent a school's contribution to the total statewide improvement in academic performance, and schools would receive funding proportionate to their contribution, with a limit of $400 per student per year.

If a school exhibited no improvement, it would receive no incentive funding. To maintain a stable student population from year to year, the plan would prohibit students from changing schools. The proposed plan would have implemented incentives in high schools first; then, if successful in promoting improvement there, school improvement incentives would have been introduced into junior high and elementary schools as well. If no statewide improvement in standardized test scores occurred within three years, the program would have been terminated.

ISSUES. Under the provisions of these three plans to give schools incentives to improve their performance, schools would definitely have a financial incentive to compete with each other in order to maximize any new state funding that could become available to them. At least two issues are likely to dominate "incentives for schools" alternatives: test scores and finding a balanced authority for school performance evaluation.

Test Scores. All three alternatives discussed above rely on test scores as the primary measure of improved school performance. As noted earlier in this brief, putting *all* the evaluation eggs in the test scores basket has its worrisome aspects. In particular —with or without performance-based funding — the educational process is becoming more and more oriented to test-taking. Test results, while useful in measuring mastery as well as aptitude, should not become a substitute for the exercise of judgment by parents, teachers and school administrators in determining either individualized educational goals or school curriculum changes.

Balance Of Authority. Performance-based funding is a "donor's preference" policy tool, similar to food stamps. It offers incentives to schools to compete for funds that are to serve as rewards for meeting goals set by policy makers who may be, but usually are not, professional educators. As state governments increasingly take on

the burden of funding public education, state legislatures and state education bureaucrats can be expected increasingly to take on the opportunity to set the curriculum and policy agenda for public schools, thereby removing this authority from local school boards — and, by extension, from parents.

Nevertheless, "incentives for schools" alternatives send a clear message to teachers and school administrators that new money for education will not be forthcoming from public coffers unless school performance actually improves. Under this scenario, it is certainly possible that educators themselves will devise alternative performance measures to take the place of or to supplement test scores. In addition, parent groups may find their state legislators would be more receptive than their local school boards and administrators have been to their demands and ideas for motivating improved school performance. State legislators would be virtually certain, for example, to hear more often and more persuasively from advocates of family choice in public education.

The forecast for the effectiveness of "incentives for schools" is as ambiguous as that for "incentives for teachers or administrators." The fact is, however, that the nation is faced with a mediocre system of public education, and a combination of measures will need to be implemented in order to reverse that situation. Performance-based funding is an attractive policy option to combine with others — especially with mechanisms to promote family choice — in part because it can assume such a wide variety of forms and accommodate a wide variety of objectives and resources.

CONCLUSIONS

Performance-based funding is a useful policy alternative for encouraging improvements in school performance. Incentives to teachers, administrators, or schools can be offered in the form of financial bonus payments, career advancements, professional development and training, or per-student rewards to schools for overall school progress in student achievement. Performance-based funding is flexible and can accommodate a wide range of objectives.

Merit pay plans should affect all school personnel, when they are implemented at all — not just teachers or just administrators. Widening the gap between administrator and teacher pay would serve only

to strengthen the incentive in the existing system to become a school administrator rather than to remain in the classroom.

The Round Valley merit pay plan for teachers demonstrates that merit pay can be a highly effective means of improving school performance. Certain special circumstances obtain in Round Valley, however, suggesting that merit pay alone would not necessarily be equally effective in all situations. The Round Valley School District is small, for example; it has an enrollment of 450 students and employs a total of 27 teachers. The neighborly intimacy of school personnel, school board, business people, and community leaders there may well account for the popularity and effectiveness of merit pay in Round Valley.

Career ladders are an important adjunct to merit pay plans for teachers and school administrators. They add distinction and acknowledgment of professional competence to the potential for financial bonuses as incentives offered to improve performance. Additional training and professional development opportunities should be integrated into incentive plans, too, to keep teachers and administrators up-to-date on advances in educational practice.

The controversies attached to performance-based funding revolve primarily around the issues of using test scores as the sole criterion for measuring performance and devising "fair" evaluation procedures as the basis for determining financial bonuses and making promotional decisions. As performance-based funding — in its many possible forms — becomes more popular, parents, educators, school boards, and legislators will need to participate in addressing and resolving these issues.

Performance-based funding probably should not be thought of as a reform that can stand alone. Ideally, it should be implemented in conjunction with other structural reforms, particularly reforms that promote family choice. This approach of combining reform measures holds the greatest promise of achieving major and long-lasting changes that will produce "good schools" — schools that can adapt to changing educational needs.

AMENDED IN ASSEMBLY AUGUST 30, 1983
AMENDED IN ASSEMBLY AUGUST 22, 1983
AMENDED IN ASSEMBLY JULY 16, 1983
AMENDED IN SENATE MAY 23, 1983
AMENDED IN SENATE MAY 4, 1983
AMENDED IN SENATE APRIL 18, 1983

SENATE BILL No. 1086

Introduced by Senator Leroy Greene
(Coauthor: Senator Speraw)

March 4, 1983

~~*An act to amend Section 60603 of, to add Sections 41332.1 and 60603.5 to, and to*~~ *An act to add Section 41332.1 to, and to repeal and add* Article 2.5 (commencing with Section 54650) ~~*to of*~~ Chapter 9 of Part 29 of, the Education Code, relating to schools, and making an appropriation therefor.

LEGISLATIVE COUNSEL'S DIGEST

SB 1086, as amended, L. Greene. Schools: Education Improvement Incentive Program.

Existing law requires the State Board of Education to require a testing program in all school districts, to adopt regulations for the conduct and administration of the testing program, and to develop a testing method that will obtain an accurate estimate of statewide performance, school district performance, and school performance of pupils in specified grades. *Under existing law, there is also an Education Improvement Incentive Program.*

This bill would ~~*establish*~~ *repeal* the *existing* Education Improvement Incentive Program, *and would add similar provisions establishing an Education Improvement Incentive Program* which

would provide incentive funding to each voluntarily participating school district maintaining schools which have demonstrated an improved performance as measured by an increase in the school's composite rating derived, as specified, from the school's score on the tests administered pursuant to the required testing program.

The bill would specify that the program shall apply only to public high schools. However, if the Superintendent of Public Instruction determines that, in the 1986-87 fiscal year, the statewide performance improvement for grade 12 has equalled or exceeded a specified percentage, the application of the program would be extended to junior high schools, intermediate schools, and elementary schools according to a specified schedule. In the event that the superintendent determines that the statewide performance improvement for grade 12 has not equalled or exceeded that percentage, the program would cease to be operative July 1, 1987.

~~The bill would require the regulations adopted by the State Board of Education for the conduct and administration of the testing program to include certain requirements regarding the proctoring of tests administered as part of the testing program.~~

~~The bill would specify that the State Board of Education shall ensure that the testing method it develops pursuant to the existing statutory requirements will provide sufficient data to reliably determine the composite rating of the performance of high schools of a certain size for purposes of the Education Improvement Incentive Program.~~

The bill would, in the 1984-85 fiscal year, appropriate $50,000,000 to the Superintendent of Public Instruction for performance incentive payments pursuant to the Education Improvement Incentive Program in the 1984-85 fiscal year, and would, in the 1984-85 fiscal year, appropriate $100,000 to the State Board of Education for specified purposes in the 1984-85 fiscal year pursuant to the requirements imposed by this act.

Vote: majority. Appropriation: yes. Fiscal committee: yes. State-mandated local program: no.

The people of the State of California do enact as follows:

SECTION 1. Section 41332.1 is added to the Education Code, to read:

41332.1. For the 1984-85, 1985-86, and 1986-87 fiscal years, the Superintendent of Public Instruction shall compile a list of all high schools in the state for which the school attendance areas were

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adjusted as part of the data collected in the fall of each year for purposes of the first principal apportionment.

SEC. 1.5. Article 2.5 (commencing with Section 54650) of Chapter 9 of Part 29 of the Education Code, as added by Chapter 498 of the Statutes of 1983, is repealed.

SEC. 2. Article 2.5 (commencing with Section 54650) is added to Chapter 9 of Part 29 of the Education Code, to read:

Article 2.5. Education Improvement Incentive Program

54650. It is the intent of the Legislature to encourage improvement in the performance of all public schools by providing fiscal incentives to motivate teachers and school site administrators to work to increase school performance. It is not the intent of the Legislature that incentive funding provided pursuant to this article be used as a substitute for periodic inflation adjustments to school apportionments.

The Legislature recognizes that recent indicators of educational achievement, including the results of the California Assessment Program, show high schools to be in the greatest need of educational improvement. It is therefore the intent of the Legislature that the Education Improvement Incentive Program first be implemented in the state's public high schools. If the program proves to be effective in improving school performance statewide, it is the intent of the Legislature that the program be extended to junior high schools, and, ultimately, to elementary schools.

It is the intent of the Legislature that participation in the Education Improvement Incentive Program be voluntary and not mandatory, and that school districts may choose not to receive incentive funds pursuant to this article.

It is further the intent of the Legislature that the California Assessment Program conducted pursuant to Chapter 5 (commencing with Section 60600) of Part 33 be used to measure the improvement of school performance pursuant to this article. It is also the intent of the Legislature that, beginning in the 1985-86 fiscal year, the California Assessment Program be expanded to assess performance in additional basic skills courses and content courses, with an emphasis on logical analysis, the drawing of reasonable inferences, and communication of ideas.

54651. (a) Beginning with the 1983-84 fiscal year, and each fiscal year thereafter, the State Board of Education shall develop a

composite rating of each school's performance in basic skills courses. The composite rating shall be based upon the weighted percentage of correct answers scored by the school on the tests administered pursuant to Section 60603 in each of the basic skill areas.

(b) Beginning with the 1983-84 fiscal year, and each fiscal year thereafter, the State Board of Education shall develop a statewide composite rating of performance for all schools in the state, based upon the composite ratings of each school developed pursuant to subdivision (a).

54652. (a) Any school district which elects not to participate in the Education Improvement Incentive Program may so notify the Superintendent of Public Instruction on or before ~~January 1, 1985~~ *September 30, 1984*.

(b) The Superintendent of Public Instruction shall not include the schools located within a district which has elected not to participate in the incentive program in the computations required pursuant to Section 54653, 54654, 54655, or 54658.

54653. Beginning with the 1984-85 fiscal year, and each fiscal year thereafter, the State Board of Education shall compute the change in the performance of each school as measured by the change in the composite rating from the prior year. A school which demonstrates an improved performance from the prior year shall earn incentive funding in the fiscal year in which the performance improvement occurred. The State Board of Education shall compute the incentive funding earned by each school pursuant to this section as follows:

(a) For each school which demonstrates an improved performance, multiply the increase in the composite score of the school by the number of pupils in that school who took the test during the fiscal year in which the increase occurred.

(b) Add the individual products computed pursuant to subdivision (a) to determine the total statewide increase in school performance.

(c) Divide the product computed for the individual school pursuant to subdivision (a) by the total statewide increase in school performance computed pursuant to subdivision (b) to determine the individual school's proportional contribution to the statewide increase in school performance.

(d) Multiply the quotient obtained pursuant to subdivision (c) by the amount appropriated in that fiscal year for purposes of this article to determine the incentive funding earned by an individual

school. In no case, shall the amount of incentive funding earned by an individual school exceed the product of the number of pupils enrolled in that school multiplied by four hundred dollars ($400).

The State Board of Education shall provide the Superintendent of Public Instruction with a list of the schools which have earned incentive funding, and the amount of that funding earned by each school. The board shall provide the governing board of each school district with a list of the schools within the district which have earned incentive funding, and the amount of that funding earned by each school.

54654. Commencing with the 1984-85 fiscal year, and each fiscal year thereafter, the Superintendent of Public Instruction shall compute a districtwide total of incentive funding earned by individual schools located within each school district. The superintendent shall include this sum in the school district's second principal apportionment for the fiscal year in which the incentive funding was earned. Incentive funding received pursuant to this article shall supplement, and shall not supplant, the apportionment due to a school district.

54654.5. Incentive funds included in a school district's apportionment pursuant to Section 54654 shall not be considered part of the current expense of education for purposes of Section 41372.

54655. The governing board of a school district which receives funding pursuant to Section 54654 shall allocate to each school which earned incentive funding the amount earned by that school as computed pursuant to Section 54653.

54655.5. Each school which receives an allocation pursuant to Section 54655 shall utilize its school site council for purposes of planning the expenditure of those funds. If the school does not have a school site council, it shall establish one as provided by Section 52012.

54656. No funds allocated pursuant to Section 54655 shall be used for any of the following purposes:

(a) To pay salaries negotiated pursuant to Chapter 10.7 (commencing with Section 3540) of Title 1 of Division 4 of the Government Code.

(b) To hire additional staff pursuant to employment agreements for a term of one year or more.

54656.5. Funds allocated to schools pursuant to Section 54655 shall supplement, and shall not supplant, school budgets.

54657. The governing board of each school district which elects

to participate in the Education Improvement Incentive Program shall certify to the Superintendent of Public Instruction the number of pupils enrolled in the district which have been exempted from the testing program conducted pursuant to Section 60603. The superintendent shall compare this number with the unduplicated count of individuals with exceptional needs reported by age and handicapping condition by the district to the superintendent as a condition of receiving federal funding pursuant to Public Law 94-142. If the superintendent determines that the governing board has exempted an excessive number of pupils from the testing program, the superintendent shall proportionately reduce the district's total incentive funding calculated pursuant to Section 54654.

54657.5. In order to ensure the validity of the composite ratings of 12th-grade performance used for purposes of this article, the State Department of Education shall develop procedures for the 12th-grade for the proctoring of tests administered as part of the testing program by persons not employed by the school district administering the test. At least one proctor shall be present in each classroom used for the administration of the test while the test is being conducted.

The proctor assigned to each classroom shall be given the responsibility of delivering the completed test forms to the State Department of Education for scoring.

54658. In the 1986-87 fiscal year, the Superintendent of Public Instruction shall calculate the statewide performance improvement for grade 12 which occurred since the 1983-84 fiscal year, based upon the composite rating developed pursuant to Section 54651, and shall report the results to the Legislature on or before June 30, 1987.

54659. (a) The provisions of this article shall apply only to public high schools.

(b) If the result obtained pursuant to Section 54658 demonstrates a performance improvement equal to or greater than 3 percentage points, subdivision (a) shall cease to be operative, and the provisions of this article shall be applied as follows:

(1) For the 1987-88 fiscal year, to high schools, junior high schools, and intermediate schools.

(2) For the 1988-89 fiscal year, and every fiscal year thereafter, to high schools, junior high schools, intermediate schools, and elementary schools.

(c) If the result obtained pursuant to Section 54658 does not

demonstrate a performance improvement equal to or greater than 3 percentage points, this article shall cease to be operative July 1, 1987.

~~SEC. 3. Section 60603 of the Education Code is amended to read:~~

~~60603. The State Board of Education shall:~~

~~(a) Require a testing program in all school districts.~~

~~(b) Require the State Department of Education to submit and recommend achievement tests to the State Board of Education for approval and adoption. The adopted tests shall be printed or purchased and distributed to the various school districts in the state by the State Department of Education.~~

~~(c) The State Board of Education shall develop a testing method that will obtain an accurate estimate of statewide performance, school district performance, and school performance of pupils in grades 6 and 12, in basic skills courses.~~

~~Under such a testing method, the State Department of Education shall annually require that each district administer a statewide test to all pupils in grades 6 and 12. The department shall determine whether pupils in a given school shall be administered the entire test or whether the pupils shall be administered a portion of the test which will be representative of all the test objectives, goals, or categories of items on the entire test.~~

~~The department may increase the pool of test questions used in assessing the achievement of pupils in grade 12 in order to obtain an accurate estimate of school performance for purposes of Article 2.5 (commencing with Section 54650) of Chapter 9 of Part 29.~~

~~(d) Designate the physical performance test to be used during the ensuing school year.~~

~~(e) Adopt regulations for the conduct and administration of the testing program. The regulations shall include, but not be limited to, all of the following:~~

~~(1) Proctoring of tests administered as part of the testing program by persons not employed by the school district administering the test. At least one proctor shall be present in each classroom used for the administration of the test while the test is being conducted.~~

~~(2) The proctor assigned to each classroom pursuant to paragraph (1) shall be given the responsibility of delivering the completed test forms to the State Department of Education for scoring.~~

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~~The State Board of Education shall award contracts to develop achievement testing instruments to be used for the purposes of this section in reading, mathematics, and language according to competitive bidding procedures.~~

~~SEC. 4. Section 60603.5 is added to the Education Code, to read:~~

~~60603.5. In developing a testing method pursuant to subdivision (c) of Section 60603, the State Board of Education shall ensure that the method used in high schools with less than 50 pupils enrolled in grade 12 will provide sufficient data to reliably determine the composite rating of the performance of these schools pursuant to Section 54651.~~

~~SEC. 5. The sum of fifty million dollars ($50,000,000)~~

SEC. 3. The sum of fifty million dollars ($50,000,000) is hereby appropriated in the 1984-85 fiscal year from the General Fund to the Superintendent of Public Instruction for funding performance incentive payments pursuant to Article 2.5 (commencing with Section 54650) of Chapter 9 of Part 29 of the Education Code in the 1984-85 fiscal year.

~~SEC. 6.~~

SEC. 4. The sum of one hundred thousand dollars ($100,000) is hereby appropriated in the 1984-85 fiscal year from the General Fund to the State Board of Education for the development of regulations for the conduct and administration of the testing program, and to fund the payment of proctors, pursuant to the requirements established by this act, in the 1984-85 fiscal year.

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